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Business Consulting Practices



The Five Phases of IT Value Management

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5 Phases of IT Value Management

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The concept of aligning IT investments with business goals is as old as the IT function itself.

Tangible examples of IT alignment, however, have been rare over the last 40 years, despite respected IT thought leaders widely promoting the concept. The reason why is simple. Until a few years ago there was simply no need.

Through IT's infancy and adolescent stages, budgets and functionality dutifully followed the growth curves associated with Moore's law for more than 40 years. (According to Moore's law, "The number of transistors on a chip doubles every 18 months.") While Moore's views are likely to continue with regard to technological advances and cost reductions, its correlation with aggregate IT spending no longer applies.

Emergence of the 'need' for IT value management

Once upon a time, IT budgets were entirely dedicated to innovation. But the dot-com destruction of \$3 trillion of shareholder value, coupled with high-profile examples of corporate mis-governance, has created a permanent shift in IT budget priorities and spending behavior.

Following that shift, the pendulum continued to swing the other way over the last few years with a 20% reduction in total IT spending. Research shows that the typical company today spends 90% of its IT budget on "lights-on" operations, leaving a scarce 10% for innovation. As market conditions require greater innovation to maintain competitiveness, the sunset of the IT budget growth era has resulted in a bona fide need to prove and improve returns from IT investments. ITVM capability and maturity defined

Almost all companies have adopted some level of ROI analysis on their technology investments, ranging from elementary to sophisticated. We have identified five phases of IT value management (ITVM) development to help companies create a thorough technology ROI approach, starting from the ground up.

Level 1 - When in doubt, use spreadsheets

According to a 2003 IT Governance Institute survey, 80% of CIOs acknowledge the need for ITVM. Reminiscent of the mid-'80s trend to use PCs to solve every business process problem, IT and business professionals have responded with spreadsheet models that attempt to identify and quantify the business value of IT investments. Currently, more than 75% of companies use spreadsheets for ad hoc analysis of IT projects.

While better than *not measuring* IT value, spreadsheets inherently limit scalability and multiuser integrity. More importantly, most companies lack the subject matter expertise to ensure completeness (i.e., they have considered all dimensions of the project) and relevance (i.e., realistic real-world assumptions).

Research indicates that there is enormous payback to companies of *all sizes* that have adopted ITVM best practices. These top performers produce three times more shareholder value per IT



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dollar spent (a factor of 3.28 for companies with more than \$1 billion revenue and a factor of 3.08 for companies with less than \$1 billion revenue).

Interestingly, smaller companies (less than \$1 billion in revenue) tend to achieve on average 70% greater shareholder value per IT dollar spent than their large company counterparts (greater than \$1 billion revenue), due to cost advantages in security, compliance and other diseconomies of scale associated with managing and staffing larger IT infrastructures.

However, as the correlation between shareholder value and IT spending is much better among larger companies (1.5 times better among leading companies and 3.2 times better among profitable companies), due to their ability to develop robust processes and value measurement discipline, it is unclear where the optimal balance between governance and agility will occur and whether smaller or larger organizations will be the first to achieve it.

Realizing the competitive importance of ITVM, both large and small companies are shifting from the ubiquitous use of homegrown spreadsheet solutions to third-party tools and research.

Level 2 - Leverage third-party analysis

The fundamental challenge with Level 1 ITVM maturity is that resources are finite and perspectives are limited to organizational experience. Given the constantly changing technology landscape and lessons learned from each deployment, articulating the theoretical value of IT investments is an enormous undertaking attainable only through a team of dedicated analysts with perspectives that span multiple organizations and industries. As these skills are rare, most organizations can't assemble the staff to produce accurate models reflecting the current technology landscape.

By leveraging credible third-party skills and assets, companies can tailor models to produce meaningful pre-implementation analysis and prioritization of proposed projects, and post-implementation assessment of results.

According to research, 20% of companies doing ITVM analysis are deploying or exploring the deployment of third-party solutions. Almost all of these are doing so on a "phased deployment" basis that validates ITVM for their organizations with a group of pilot "super users" and more extensive analysis of major projects.

Level 3 - Corporate governance through enterprise-wide deployment

While the rate of enterprise-wide deployment varies, the ability to validate ITVM benefits in phases as a precursor to broader adoption is common. Acceptance tends to be most closely correlated with change management and business performance measurement capabilities.

Level 4 - Post-implementation measurement

Consistent and meaningful pre-implementation ITVM assessment serves as the basis for post-implementation comparison to actual results. Companies have begun to automate this with a closed-loop system that integrates business intelligence analytics to both measure and recapture unrealized results, and provide input improvements to subsequent predictive models.



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Level 4 has given rise to additional opportunities and complexities: integration with complementary technologies such as project portfolio management (PPM) and business intelligence (BI) and business performance management (BPM). These IT governance technologies combine into a "total lifecycle" integrated approach to IT investments that span project selection and approval (ITVM), deployment (PPM) and automated post-implementation value measurement (ITVM/BPM/BI).

Level 5 - ITVM service-level agreements

Once a mutually agreed upon standard measurement framework is demonstrated, buyers, sellers and consultants are empowered to pursue new levels of fact-based engagement and collaboration.

Level 5 allows companies to put their money where their mouths are -- with confidence. Through the consistent measurement of expected project value, buyers and sellers identify value opportunity, assign responsibility and share the fruits of success or costs of failure with objective service-level agreements (SLAs).

Years ago, companies wishing to focus on core competency were constrained by their inability to measure performance in areas such as supply chain efficiency, call center operation and IT support. These limitations have been superseded by SLAs that measure anything and everything. Metrics for cases per hour, cost per call, average handle time and other performance indicators allow companies to confidently provide outsourcers with objective standards.

As ITVM capability and maturity evolves, IT performance measurement will focus on business value, rather than operational metrics, as the basis for attracting capital investment and rewarding team members for their contribution to business goals.



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About Saragosta Group

Saragosta Group is a young and dynamic IT consulting and services firm that delivers High Impact and High Value Services to Large and Medium sized Polish companies in Business Critical areas of consulting, IT solutions and IT services.

We have our base in Warszawa and are active across all of Poland. Through our extensive partner network, we are capable of supporting our customers both in Poland and internationally.

Saragosta Group has expanded its capabilities to provide our customers with a portfolio of high quality business critical solutions within consulting and IT services on top of Business Continuity Planning and Risk Management. Saragosta Group now consists of Saragosta Consulting and Saragosta IT Services.

The Saragosta Portfolio

Saragosta Group is a customer driven organization.

Our core competency lies in our ability to help our customers to meet their challenges.

This means that we are agile and adaptive in responding to our customers need and acquire new competencies rapidly through an extensive network and business partners. We maintain our own skills and competencies in the areas of IT Services and Consulting that are seen to be the most critical for our customers and their business and by continuously seeking to acquire new expertise in areas that are related to our core competencies.

The Saragosta Group portfolio includes key solutions and services within critical areas of Risk management and Business Continuity Planning as well as key infrastructure services managing information, applications, processes, users and workstations. The key activity areas are the following:

- **Business Continuity Planning**
- **Risk Management**
- **Strategy and Change**
- **Process Optimization**
- **Business Integration**
- **IT Management and Security**
- **Information Management**
- **E-commerce/Web solutions**
- **Solutions for Payment Systems for Banking**
- **Solutions for Anti-money laundering for Banking**

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